

Doing Business in Vietnam: The New Zealand experience

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Table of Contents

Table of Figures	IV
Attestation of Authorship.....	V
Acknowledgement.....	VI
Abstract	1
1. Introduction.....	2
1.1 New Zealand’s economy	2
1.2 The significance of Vietnam’s market for New Zealand companies	3
1.3 ASEAN, Australia, and New Zealand Free Trade Agreement.....	4
1.4 Purpose and structure of the dissertation.....	4
2. Literature Review	6
2.1 The barriers that general multinational firms face when internationalising.....	6
2.2 The barriers faced by New Zealand based international organisations when going global.....	8
2.2.1 The barriers faced by New Zealand firms when going global.....	8
2.2.2 The barriers faced by New Zealand firms when doing business in Vietnam.....	8
2.3 Internationalisation models	10
2.3.1 Stage approach	10
2.3.2 Learning theory approach	11
2.3.3 Contingency approach.....	13
2.3.4 Network approach	14
2.3.5 Toward a holistic approach and a Hybrid Model in internationalisation process of SMEs.....	15
3. Methodology	19
3.1 Philosophical Approach	19
3.2 Research Methodology	19
3.3 Methods of Data Collection	20
3.4 Method of Data Analysis.....	21

4.	Discussion.....	22
4.1	Introduction to the case company.....	22
4.2	Barriers to internationalisation faced by the case companies.....	23
4.2.1	The liability of newness	24
4.2.2	The liability of foreignness	25
4.3	Analysis of the company’s internationalisation process within the framework of the hybrid model	27
4.3.1	The basic phase (Antecedents).....	28
4.3.2	The planning phase	30
4.3.3	The execution phase.....	32
5.	Conclusion	34
6.	Limitation and Implication for future research.....	36
	References List.....	37

Table of Figures

	Page
Figure 1: The Basic Mechanism of Internationalisation-State and Change aspects	12
Figure 2: A hybrid model of SME internationalisation process	17

Attestation of Authorship

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written works by another person (except where explicitly defined in the acknowledgements), nor material which to a substantial extent has been submitted for the award of any other degree or diploma of a university or other institution of higher learning.

Thuy Duong Nguyen Thi

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Abstract

New Zealand has a small economy and consequently offers limited growth opportunities for local enterprises. Therefore, internationalisation is attractive for New Zealand companies who wish to expand their business scale. Vietnam is quickly developing as a high growth economy in the Southeast Asian region and a promising destination for New Zealand companies seeking business opportunities. It offers both a local market of over 80 million potential customers and a low-cost manufacturing base. Nonetheless, promising opportunities in these emerging markets always come along with implied barriers which may not be easy to overcome.

The aim of this study, therefore, is to examine the obstacles which New Zealand companies face when doing business in Vietnam and what internationalisation models could be used in these circumstances. This will contribute greatly to our understanding of how to do business successfully in Vietnam. The outcomes of the research will help New Zealand exporting companies enhance their assertiveness and effectiveness in this potential market.

1. Introduction

1.1 New Zealand's economy

New Zealand (resident population at around 4.4 million and a GDP of US \$205 billion) has a small open economy that operates on free market ideologies (Treasury, 2012). New Zealand's economy has sizable manufacturing and service segments supplementing a highly competent export-oriented agricultural sector. New Zealand is also a popular destination for foreign visitors and tourism is a significant source of GDP.

The primary industries, including agriculture, horticulture, forestry, mining and fisheries, form a fundamental part in New Zealand's economy, principally in the export area and in employment. In general, these sectors account for 7.6% of GDP and contribute over a half of New Zealand's total export earnings. The service industry makes up over two-thirds of the GDP and has been developing speedily since 2002. Export-related activities, for example tourism and primary sector services inputs, play a vital role in this industry. The manufacturing industry makes an important contribution to New Zealand's economy as well. In September 2011, manufacturing output made up 12.2% of real expenditure GDP. Furthermore, export are key to growth in the manufacturing area (Treasury, 2012).

Hamilton and Dana (2003) claimed that New Zealand was recognised as one of the most open and deregulated economies after its liberalisation implemented during the 1980s. From being one of the most controlled in the Organisation for Economic Cooperation and Development (OECD), New Zealand's economy is now one of the least regulated. The New Zealand government aims to boost the long-term performance of the economy via six major policy strategies, including improving the tax system, enhancing public services, support for science, innovation and trade, improving regulation, investing in infrastructure, and improving education and skills (Treasury, 2012).

New Zealand like many other small economies is heavily reliant on international trade, mainly in the form of exporting. A central objective of economic policy is maintaining and growing overseas earnings (Akooric & Enderwick, 1992). Both primary sector-based export activities and exports of services and manufactured products make an important contribution. Over the past two decades, the manufacturing sector has been a key source of export growth and diversification. Despite New Zealand's geographical position, a variety of manufactured goods, comprising plastic

goods, carpets and textiles, wines and high-tech computer equipment are now exported to countries throughout the world (Treasury, 2012).

Additionally, New Zealand's international business relationships are turning towards Pacific nations. Australia, China and the United States are New Zealand's three largest export markets accounting for 43.3% of New Zealand's product exports in 2011. Japan also remains a crucial trading partner, both as a market for product exports and as a supplier of imported goods. Similar to China, other Asian economies are becoming more important to New Zealand as potential trading partners. These countries not only provide benefits to New Zealand as one of the fastest growing regions in the world but also provide considerable demand for New Zealand's exports, especially commodities. Trade with the economies of Taiwan, Hong Kong, and ASEAN nations is becoming more and more important. All of those nations are in the top 20 biggest export destinations for New Zealand and are growing their share of New Zealand commodity exports to approximately 30% increasing considerably since 2002 (Treasury, 2012).

1.2 The significance of Vietnam's market for New Zealand companies

Vietnam is quickly developing as a new economic growth focal point in Southeast Asia (Meyer, Tran, & Nguyen, 2006). Vietnam is a destination for foreign companies seeking business opportunities in both a local market of over 80 million potential customers and a low-cost manufacturing site (New Zealand Trade and Enterprise, 2010b). Vietnam's rapid economic growth from the 1990s is expected to continue, signifying a bigger marketplace in the future. Vietnam has major export-oriented industries grounded in labour-intensive manufacturing, particularly in the garment, footwear, and furniture industries. Meyer et al. (2006) claimed that: *"The country is gaining competitive advantage for labour intensive production processes on the basis of low general wage levels. Productivity of the workforce is high, as Vietnamese employees have a reputation for being hard-working and ambitious"* (p.264). Moreover, the Vietnamese are generally strong in natural science which offers a firm foundation for future development into high-technology industries. Simultaneously, Vietnam's government aims to maximize its competitive advantages by lowering or eliminating both self-imposed and externally levied tariffs and trade barriers (Harris, 2008). International integration with membership of the Association of Southeast Asian Nations (ASEAN), ASEAN Free Trade Area (AFTA), and the World Trade Organisation (WTO), facilitates entry for foreign investors to this attractive marketplace. Furthermore, Vietnam's young population and a growing middle-class are

keen on exploring Western style food, beverages, and other professional services. In other words, Vietnam represents a massive prospective market for foreign traders as the increasing middle-class demand commodity products (East Asian Executive Reports, 1999; Enderwick, 2007; Harris, 2008; Meyer et al., 2006; New Zealand Trade and Enterprise, 2010a, 2010b; New Zealand Treasury, 2009).

1.3 ASEAN, Australia, and New Zealand Free Trade Agreement

The New Zealand Government is making an effort to develop relationships with emerging economies including Vietnam. In January 2010, a multiparty free trade agreement between New Zealand, Australia, and ASEAN nations (AANZFTA), including Vietnam, came into force. This agreement opens and facilitates trade in goods, services and investment between New Zealand and Vietnam. Bilateral relations between New Zealand and Vietnam were reinforced in July 2010, when the New Zealand-Vietnam Action Plan from 2010 to 2013 was signed. The leaders of the two countries agreed that this action plan would be a comprehensive partnership, covering a wide range of areas including trade, science and technology, education, defense, policing and customs co-operation (New Zealand Trade and Enterprise, 2010b; New Zealand Treasury, 2009).

1.4 Purpose and structure of the dissertation

To New Zealand's firms wishing to expand their business scale, Vietnam represents a massive prospective market in which to operate as the increasing middle-class demand commodity products (East Asian Executive Reports, 1999; Enderwick, 2007; Harris, 2008; Meyer et al., 2006; New Zealand Trade and Enterprise, 2010a, 2010b; New Zealand Treasury, 2009). However, promising opportunities in this emerging market are usually accompanied by barriers which are not easy to overcome. Therefore, the purpose of this dissertation is to discover the particular difficulties that New Zealand companies may have to face and which internationalisation model can help them to manage and to overcome difficulties when doing business in Vietnam. It will provide a deep understanding of both advantages and disadvantages when doing business in Vietnam's market place as well as an analysis in internationalisation models which might be suitable to apply for New Zealand companies. Moreover, the outcomes of the research will also contribute to New Zealand policy makers facilitating the progress of bilateral relations between New Zealand and Vietnam. In addition, the research is expected to contribute to the international business literature on the emerging

nations in the Southeast Asian region, particularly Vietnam, as a prospective growth market for companies aiming to internationalize.

The dissertation is presented as follows. Initially, the literature review section will be summarised on barriers which multinational companies in general (with small to medium sized enterprises (SMEs) as the main focus) and New Zealand companies specifically face when internationalising (especially in Vietnam's market). Afterward, there will be an outline of internationalisation models which would be applicable frameworks for the internationalisation process of a company. On the other hand, the study of the hybrid internationalisation model will be presented as the main focus in the literature review. The methodology which was used as the foundation for the research will be briefly explained in the third part of this dissertation. The next section includes a brief introduction to the three New Zealand case companies that participated in this research project. The organisations participating in the research project include a New Zealand based well-known building materials manufacturer and distributor, an innovative company providing business software services, and a leading provider educational services. The difficulties and challenges that companies face when doing business in Vietnam will be scrutinised and their internationalisation practice will be studied within the structure of the hybrid model. Lastly, the conclusions section will review main points from previous sections and finally the limitations of the dissertation along with implications for further research will be recognised.

2. Literature Review

According to the Ministry of Economic Development (2012), SMEs account for 97.2 percent of all companies in New Zealand. Furthermore, New Zealand like many other small economies is greatly reliant on international business, mainly in the form of exporting as the first step to enter foreign markets (Akooric & Enderwick, 1992; Jones, 2001). When the firms gain sufficient experience and resources in foreign markets, they may move on to the next stage of internationalisation which involves higher risk levels and more challenges, for example investment or partnership (Lu & Beamish, 2001). Therefore, the approach that has been taken here is studying the barriers and challenges those multi-national enterprises (MNEs) in general, and small to medium-sized enterprises (SMEs) in particular, might have to face when internationalising (both via exporting and overseas investment) due to the high percentage of SMEs in New Zealand. The literature will discuss mainly about barriers that general SMEs face before outlining specific barriers that New Zealand SMEs face when internationalizing. After that, difficulties when doing business in Vietnam's market place via New Zealand firms' experience will be the focus. In addition, diverse approaches and models of the internationalisation process of companies will be analysed and the need for a new model of the internationalisation process will be emphasized.

2.1 The barriers that general multinational firms face when internationalising

Expanding to foreign markets creates an important chance for development and value creation and presents diverse experiences in addition to general challenge in domestic markets (Lu & Beamish, 2001). Therefore the issues regarding barriers multinational companies face when internationalising have been given much attention by the international business researchers. Most researchers have concentrated on exploring the barriers which were defined as '*constraints that hinder the firm's ability to initiate, to develop, or to sustain business operations in overseas markets*' (Leonidou, 2004) of SMEs when exporting, because it was recognised that the common first step of developing a firm's commitments to foreign markets was habitually exporting activities (Jones, 2001). Focusing more particularly, the barriers, for SMEs when exporting, can be distinguished between internal and external barriers. Internal barriers are barriers which are related to the firm's organisational resources and competences (including functional barriers - human resource, production, finance, and so on, informal barriers, and marketing related barriers), whereas external barriers are barriers which exist due to

differences between the host and home environment the firm operates within (including procedural barriers – transaction issues, techniques and procedures differences, and communication difficulties, governmental barriers, task barriers, and environmental barriers – economic, political/legal, and socio-cultural environment related barriers) (Leonidou, 1995).

In the next stage of internationalisation, such as joining a business partnership or building up firms' facilities in foreign market (for example representative offices or regional branches), the challenges and barriers are more visible (Lu & Beamish, 2001). According to Johanson et al. (2003), each country market is surrounded by barriers building up from economy, institutional, and cultural factors. The economic barriers (such as economic conditions, currency exchange risks, and so on) used to emphasise in the early international trade theory as well as international investment theory. On the other hand, institutional (such as political/legal conditions, national rules, regulations, tariff and non-tariff barriers, and so on) and cultural barriers (such as socio-cultural behaviour differences, communication difficulties, and so on) are paid more attention in the international business literature during the last decade. Lu and Beamish emphasised that confrontations of internationalisation process could be associated with issues of foreignness and newness (Korsakiene & Tvaronaviciene, 2012; Lu & Beamish, 2001). These challenges are seen of higher significance if the target market is not similar to the domestic market as well as if new subsidiaries are set up. Therefore, SMEs have to look for the way to obtain new resources and capabilities when expanding their business to a new foreign market. Besides, higher political and operational risks are considerable issues that MNEs have to confront due to the foreignness of the new environment. Noticeably, smallness is seen as a disadvantage in internationalisation process, since SMEs are regularly short of resources and capabilities which limits the possibility to obtain business opportunities (Korsakiene & Tvaronaviciene, 2012).

Furthermore, other studies focusing on barriers of internationalisation by exporters and non-exporters classified such areas: financial, managerial, and market (including both home and host markets) oriented, and the distinctiveness of industry and firms (Morgan, 1997). The obstacles of internationalisation can exist at any stage of internationalisation progression and may vary in intensity depending on what extent the firm has internationalised (Cavusgil, 1984; Constantine & Robert, 1994). Moreover, management characteristics including the knowledge of international business, international transactions practice, planning orientation or strategic approach are also highlighted as barriers that can limit a firm's performance when going global (Cavusgil

& Godiwalla, 1982; Fletcher, 2001). On the other hand, the organisational characteristics including enthusiasm to provide and develop services and products for abroad markets, to attain technological advantage, and readiness to research foreign markets, marketing activities by competitors in international markets, the perception of higher risk in overseas markets, information about the market and how it functions, cost issues, and being short of export training and government assistance are other noticeable challenges for the firm to overcome when internationalising (Bilkey, 1985). Finally, external factors such as availability of government incentives for MNEs, especially for SMEs that are expanding to foreign markets, falls in domestic demand as well as excess capacity, and reduction in expenses of production are also considered as noticeable obstacles that can constrain the firms in their internationalisation process (Johnston & Czinkota, 1985; Korsakiene & Tvaronaviciene, 2012; S. Reid, 1983).

2.2 The barriers faced by New Zealand based international organisations when going global

2.2.1 The barriers faced by New Zealand firms when going global

The deregulation in the mid-1980s has brought New Zealand to a level where it can integrate with the international economy (Akooric & Enderwick, 1992). However, it is claimed that: *“The path of internationalisation is both a risky one but also an increasingly attractive one”* (Enderwick & Akoorie, 1996). A number of challenges for New Zealand firms who are expanding their business overseas were identified in other studies, such as: difficulties from inner firm’s characteristics as a late entry into world market, finance and cost-related issues, limited foreign market knowledge, and limited managerial expertise, as well as difficulties from outer features as limited access to networks, a lack of supporting resources, and a lack of New Zealand government incentives for exporting and investment (Akooric & Enderwick, 1992; Dean, Mengüç, & Myers, 2000; Sharon & Jim, 2006; Shaw & Darroch, 2004).

2.2.2 The barriers faced by New Zealand firms when doing business in Vietnam

Regarding Vietnam, a country is evaluated as a new centre of economic growth in Southeast Asian, a great place in which to live and work, and a noticeable potential market for new Zealand firms to exploit, nonetheless, doing business in there is not without its own problems (Burra & Ahmad, 1991; Hoang, 2008; Meyer et al., 2006; NZ Business, 2005). According to studies conducted by previous scholars and researchers, there are several issues that may discourage or restrain New Zealand companies doing

business in Vietnam (Hoang, 2008; International Tax Review, 2012; Mathew, 2002; Meyer et al., 2006; New Zealand Trade and Enterprise, 2010a; NZ Business, 2005; The Economist, 2008; Vecchi, 1992a, 1992b).

The political system and bureaucracy

With a single-party Communist state in Vietnam that appears determined to maintain their monopoly on power, there are limitations in freedom of speech, especially in media including the internet. For instance, sites will be shut down by the Vietnamese government if the subject is deemed to go against official state guiding principles. Furthermore, corruption still remains as a main and unsolvable issue in Vietnam. There are many cases of government officials instigating or receiving gifts or bribes to supplement their incomes (Hoang, 2008; The Economist, 2008). Additionally, Vietnam is heavily regulated and each company has to have an investment license which will present what they can or cannot do in Vietnam. Bureaucracy is a problem as well, especially paper work, which is set up in complex instruction and requires a good advisor to implement (Hoang, 2008; Nguyen & Meyer, 2004; NZ Business, 2005).

Legal system

Legal system in Vietnam is still improving; therefore, the knowing and implementing business practises is an actual challenge. In fact, there are many conflicts between decrees (ministerial level) and articles (city level) that can cause confusion to not only foreign companies but also domestic firms in execution. Furthermore, strict controls in foreign exchange and issues related to protection of intellectual property still remain as major challenges for firms who come to Vietnam to operate business (Meyer et al., 2006; New Zealand Trade and Enterprise, 2010a, 2010b; The Economist, 2008).

Infrastructure

Vietnam is still considered a hard market due to its poor infrastructure facilities. Big cities such as Hanoi, Da Nang, and Ho Chi Minh have vastly improved infrastructure facilities, but infrastructure development has been very unequal, especially between urban and rural areas. Transportation is an example. While cyclists and motorcyclists account for more than 90% of the country's transportation means, Vietnam is infamous for road accidents. Roads in Vietnam are regularly heavily crowded and inadequately constructed. Another instance is electricity shortage which frequently happens on top of increasing demand. The telecommunication system is also poor and not broadly accessible (Hoang, 2008; International Tax Review, 2012; Mathew, 2002).

Relationship based business

It is suggested that in order to succeed in Asian cultural market, there is a need to build up long term relationships with local partners and establish brand awareness, and the Vietnamese market is similar. However, it takes time and requires lots of effort to find the right partner and work on relationship-building as connections help get things done when doing business in Vietnam (Dang Thi Kim, Fredric William, & Truong, 1998; Hoang, 2008; Mathew, 2002; New Zealand Trade and Enterprise, 2010a, 2010b; Van Dinh & Scheela, 2001).

Inequalities in income and wealth

Even though minority of the population live in total poverty, numerous people still do not own access to necessary utilities. A considerable number of households do not have a television or internet access, for instance, “*which can make trading in Vietnam difficult, as the effectiveness of using above-the-line promotion to reach the population is limited*”, claimed by Hoang (2008) .

Shortage of qualified employment

Free of charge and obligatory education is only accessible for children aged from 6 to 11 in Vietnam. Subsequently, higher education is costly and therefore inaccessible to lots of families. The lack of a high-quality and affordable education structure means that a skills employment shortage in the future is an inevitable challenge for foreign companies such as New Zealand firms whose business require high standard in operation as well as qualified and well trained employees (Hoang, 2008; Mathew, 2002).

2.3 Internationalisation models

It is emphasised that internationalisation process scholars are founded on a number of approaches to the firm’s internationalisation process, namely stage, learning, contingency and network approaches.

2.3.1 Stage approach

The earliest group of theories explaining internationalisation process is the stage approach. According to scholars who supported this approach, they all agree that: “*Firms start with the modes of entry which require the least commitment of resources and with experience in the market increase their commitment of resources to international activities*” (Korsakiene & Tvaronaviciene, 2012). For example, Vernon (1966) developed the product life-cycle model with an effort to link a country-based view of international business theory with an individual firm’s viewpoint of

international investment theory. Vernon developed some stages in the life cycle of a product, each of which includes diverse implications for the internationalisation process of the firm and the product itself. These include the introduction stage (domestic), the growth stage (increasing export and foreign direct investment activities), the maturity stage (standardisation product and manufacturing relocation to countries with low labour cost), and the stage of decline (manufacture and the demand leave the manufacturing nation which was home to the original innovation) (McKiernan, 1992; Vernon, 1966). While the product cycle model takes the company level into consideration, the main focus is still on the country level. The key contribution of this model is the developmental perspective on re-localisation of manufacturing activities in order to take advantage of technological know-how, foreign demand, and labour costs. In this model, functional, informal, and procedural barriers could be overcome due to the concept of standardised product and manufacturing procedure as well as the hypotheses that all target foreign market places are high income and low-cost labour. However, this model could not address issues regarding the cost of market research and information, cultural barriers, marketing related challenges, and the limited access to resources in developing areas (Vernon, 1966). Moreover, the applicability of the product recycle model is constrained if innovative products are developed in firms that have previously had substantial business operations in foreign countries (Melin, Höskolan i, Ihh, & Internationella, 1992).

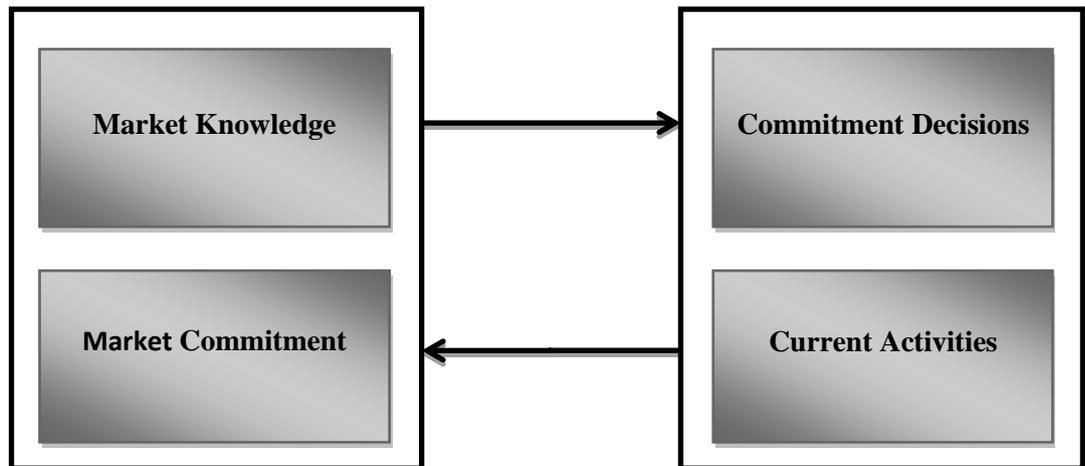
Cavusgil's study based on progressive reduction of uncertainty (1980) also supported this approach (Korsakiene & Tvaronaviciene, 2012). Furthermore, the work of Reid (1981) shows consistency with the stages approach for the internationalisation process that the firms moved from awareness of exporting and investing prospective, to the growth of the outcome of initial exporting activities, and finally to the recognition of exporting as a necessary decision.

2.3.2 Learning theory approach

A different group of researchers applied learning theory and affirmed that internationalisation was a dynamic procedure (Korsakiene & Tvaronaviciene, 2012). The research of Johansson and Wiedersheim-Paul (1975) has set up a theoretical framework for the Uppsala Internationalization Model (U-M), proposed by Johanson and Vahlne (1977).

In this model, the resource of knowledge about the foreign markets, the market commitment, decisions to commit resources, and the performance of current business activities were highlighted as shown in Figure 1 (Johanson & Vahlne, 1977).

Figure 1: The Basic Mechanism of Internationalisation-State and Change aspects



(Source from Johanson and Vahlne, 1977)

According to Johanson and Wiedersheim- Paul (1975), a firm step by step enlarges its international involvement, was defined as following from the primary export activities to the development of overseas production divisions (Melin et al., 1992). In the internationalisation process, each firm has gone through several logical periods of international behaviour grounded in *'its gradual acquisition, integration and use of knowledge about foreign markets and operations, and on its successively increasing commitment to foreign markets'* (Johanson & Vahlne, 1977). According to Wiedersheim-Paul and the others (1978), companies begin their global activities in nearby markets through an intermediary and after that on a direct basis. The setting up of a trading subsidiary might be followed by various forms of production in international markets (Korsakiene & Tvaronaviciene, 2012).

On the other hand, the U-M also has emphasised the significance of *'psychic distance'* in international business decisions. The term of psychic distance was defined as *'the sum of factors preventing the flow of information from and to the market'*, for example dissimilarities between any two countries with regards to language, culture, education level, business practice and legislation (Johanson & Vahlne, 1977; Korsakiene & Tvaronaviciene, 2012; Melin et al., 1992). Furthermore, Johanson and Vahlne (1990) stressed that when entering new markets, the firm would experience sequentially greater psychic distance. The flow of information between the firm and the foreign markets can be disturbed by this perceived distance. Hence, as a consequence, companies normally begin their internationalisation process in foreign markets which

have the lowest apparent market uncertainty. That is markets that they can simply comprehend which is regularly in neighbouring nations (Melin et al., 1992).

There are a number of comparable models developed from the learning theory (for example behavioural theory of the firm, economic theory, and so on), such as studies of international investments by Aharoni (1966), and Dunning's '*eclectic paradigm*' (1980, 1988) which argued about three different sets of advantages explaining the involvement of firms in foreign production (ownership, internalisation, and localisation advantages).

However, the Uppsala model has several limitations which have been analysed in Johanson and Vahlne's work (2003; 1990, 2006). They agreed that this model is too deterministic, its implementation is inadequate to the early steps of internationalisation process, and especially as globalisation spreads around the world, the concept of psychic distance is likely to decrease. The deterministic, chronological nature of this internationalisation model does not include alternatives of strategic options, for instance establishing local manufacture in a foreign nation without experiencing any steps of exporting or setting up local trading subsidiaries. Leapfrogging of transitional stages is actually quite popular (McKiernan, 1992; Melin et al., 1992).

2.3.3 Contingency approach

The contingency approach to internationalisation supposes that when an opportunity takes place, the firm will evaluate and respond to that opportunity regardless of whether the foreign market is nearby in psychic distance conditions or whether a complex mode of entry will be required (Okoroafo, 1990). The systematic internationalisation planning model, founded on wide-ranging foreign market research and scanning activities, is the internationalisation model that is associated with this approach (Aviv & Fredric, 1998; Ibeh, 2003; Ling-yee & Ogunmokun, 2001; Shaoming & Simona, 1998; Walters, 1993; Yip, Biscarri, & Monti, 2000). This approach assumes that managers choose tactics, which can optimise the distinctiveness of a selected environment in which the firm has entered and consequently the internationalisation process of the firm relies on the environment that they are operating in (Ibeh, 2003). Besides the external environment, internal factors to the firm also play an important role in planning their internationalisation strategy (Okoroafo, 1990). Most lately, the '*Way Station Model*' for internationalisation process of SMEs was suggested by Yip and the others (2000). In this planning model, six steps including motivation and strategic planning, market research, market selection, entry mode choice, problem planning, and

post-entry commitment were proposed as main activities when the firms went global (Lei, Dan, & Tefvik, 2004; Yip et al., 2000).

Nonetheless, for managers of MNEs, especially of SMEs, time to carry out a comprehensive systematic planning process is commonly never adequate since they have to operate in a dynamic environment and need to respond in a timely manner whenever opportunities occur (Lei et al., 2004). According to Okoroafo (1990), based on the systematic internationalisation planning model, the firm takes action to opportunities which come up in spite of whether the potential foreign market is psychic distant or not and in that way leapfrog any stages of the internationalisation development. Moreover, the performance of the firm can be influenced by the extent to which the selected strategies match up with the given foreign market. Consistent with this opinion, Walters and Samiee (1990) stated that in a particular environment, one tactic might not be appropriate, whereas, some others might be more valuable.

2.3.4 Network approach

Among all the theories and viewpoints regarding a firm's internationalisation process, perhaps the network approach presents the most relevant standpoint of internationalisation process of small business, as claimed by Lettice and the others (2004). From the network view, Johanson and Mattsson (1988) assumed that internationalisation is a process which occurs via networks of relationships (Hadley & Wilson, 2003). The significance of the role of connections and relationships in the internationalisation process was emphasised in studies of Chetty and Holm (2000) as well as the studies of Johanson and Mattsson in 1988 which was introduced in Buckley and Ghauri's work (1994). They stated that internationalisation can take place in three ways: by building relationships with business partners in foreign countries, by raising commitment to previously created foreign networks, and by integrating their situations in networks in a variety of foreign markets. Therefore, the key factors that can conclude the success of the firm when entering new markets in foreign nations are their position in the network and their relationships within the current market (Korsakiene & Tvaronaviciene, 2012)

The current study applies social exchange theory to describe business networks. According to Emerson (1981), "*a business network can be defined as a set of two or more connected business relationships, in which each exchange relation is between business firms that are conceptualised as collective actors*", as cited in the work of Anderson et al. (1994) . Those collective actors are including the customers, distributors, suppliers, competitors, and the government which can allow the firm to

gain access to new markets and missing resources (Chetty & Blankenburg Holm, 2000). Moreover, these relations will develop and strengthen when the firm goes global (Hadley & Wilson, 2003). The network model of internationalisation takes the impact of exterior organisations on the internationalisation process of the firm into consideration. Consistent with Johanson and Mattson's point of view, Holm, Eriksson, and Johanson (1996: p. 1049) claimed that: *“While most research on foreign market entry has focused on entry mode selection, our findings indicate that the development of cooperative relationships with customers, suppliers or other business partners may be critical”* (Hadley & Wilson, 2003).

Certainly, it is significant to note that the firms often create and maintain their knowledge via factors within their relevant networks (Hadley & Wilson, 2003). Fundamentally, instead of relying solely on only their inner competences, a variety of opportunities for vicarious learning can be offered via the firm's relationships (Inkpen, 1996; Osland & Yaprak, 1995). SMEs mostly utilise their network relationships to solve the limitation of resources that they confront compared to their stronger counterparts (McMillan & Woodruff, 2002). Many experiential researches have confirmed that a firm is capable of acquiring significant international knowledge from their relationships network (Chetty & Eriksson, 2002; Holm, Eriksson, & Johanson, 1999).

Besides, it was found out by Bonaccorsi (1992) that even excluding the direct channels of communication with other organisations, it was still comfortable for the firm to imitate other companies' internationalisation strategy. Fiegenbaum, Hart, and Schendel (1996) agreed that decision makers utilise *'reference points'* to support their plans, particularly in the situation where a high element of risk and a *'bandwagon effect'* in strategic results are obviously visible. Although imitation does not make up a direct transfer of knowledge across organisations within the network, having to face the consequences of imitating decisions from other companies is also a chance for the firm to enhance their empirical knowledge (Hadley & Wilson, 2003). On the other hand, Dexter, Dennis, and Michael (1997) argued that mutual competencies and resources were set in the firms' inner network and systems and were thus hard for other firms to imitate. It is claimed that a venture operates better than its rivals because of its improved competencies and its controlled resources (McMillan & Woodruff, 2002).

2.3.5 Toward a holistic approach and a Hybrid Model in internationalisation process of SMEs

A number of researchers observed and stated a general agreement among them that globalisation and the increasing speed of technological development are driving

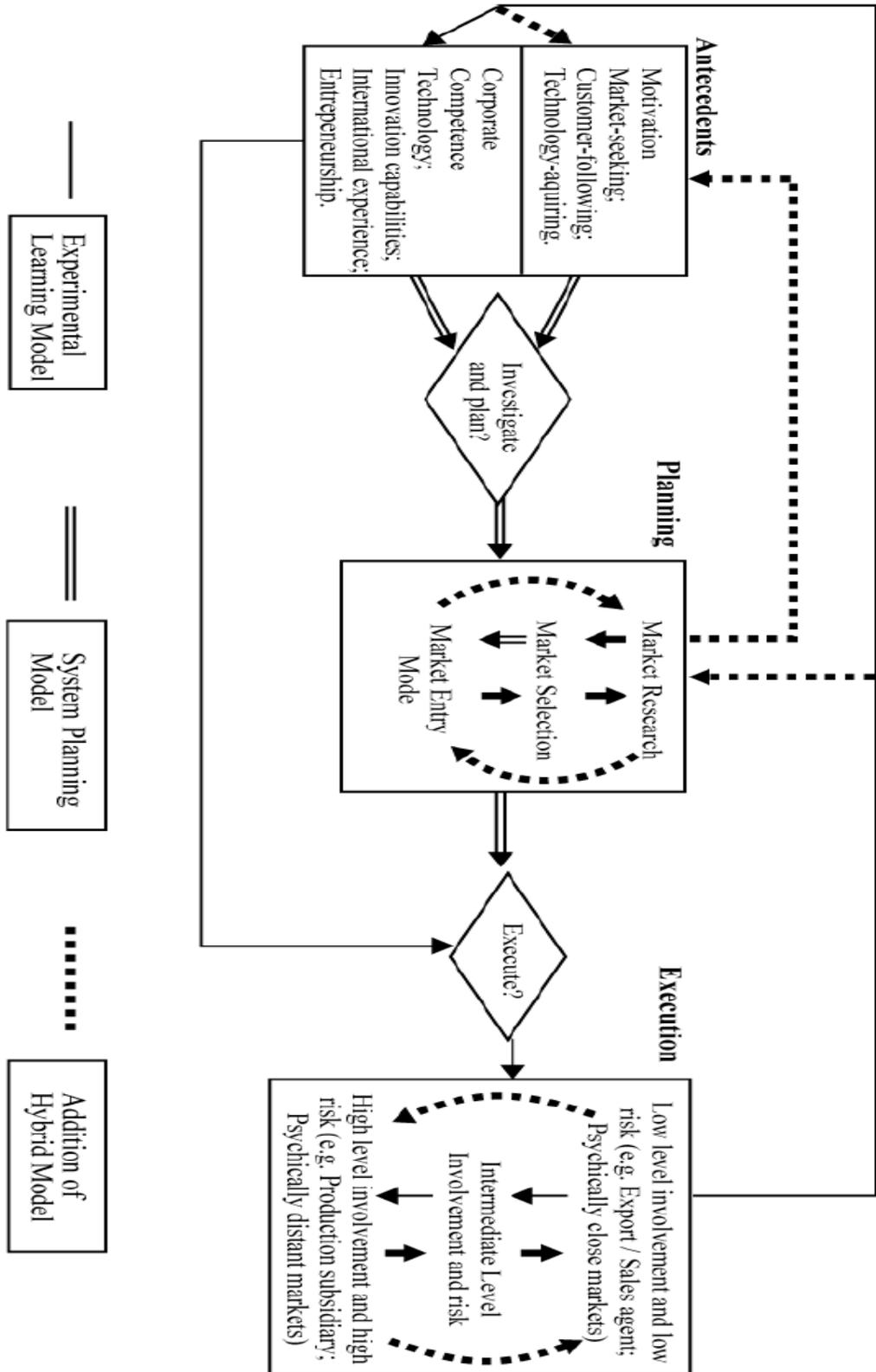
firms to internationalise more speedily than some decades ago (Johanson et al., 2003). The previously mentioned models of internationalisation are no longer effective and consequently there is a need for a new internationalisation model (Andersen, 1993; Forsgren, 2002; Johanson et al., 2003).

The idea of integrating several approaches was supported by numerous studies to explain the internationalisation process in SMEs (Korsakiene & Tvaronaviciene, 2012). Firstly, Coviello and McAuley (1999), and Coviello and Martin (1999) claimed that the combination of stage approach, network approach and foreign direct investment theory (including transaction cost analysis) can let us better comprehend SMEs' internationalisation process. Similarly, Etemad and Wright (1999) recommended integrating a range of theoretical approaches, comprising the stages approach, FDI theories and network approach. Ruzzier et al. (2006) have also researched on the combination of process models, innovation models, network approach, resource based view, and international entrepreneurship theory.

Currently, one of significant studies on integration approaches in internationalisation process is the hybrid internationalisation model developed by Lei and others (2004). This model is created by integrating the empirical learning approach and contingency approach with systematic planning models. According to the researchers this hybrid model might be practiced by leaders of SMEs as a normative structure in planning their internationalisation development tactic by scrutinising their motivations as well as obtainable competencies and resources (Casillas, Moreno, Acedo, Gallego, & Ramos, 2009).

The overall conception of the hybrid internationalisation model is illustrated in Figure 2. Lei et al. (2004) proposed that there were three major phases when a firm internationalised, including basic phase (antecedents), planning, and execution. The single and double solid lines in Figure 2 were used to show the dynamic circle of the empirical learning approach and the logical progression of the systematic planning model correspondingly. A few significant elements such as the feedbacks from execution to motivation and plan as well as the alternative cycle within planning and execution phases (in bold dash lines) displayed that each of the two theoretical approaches was certainly an essential part of a larger and more comprehensive framework.

Figure 2: A hybrid model of SME internationalisation process



(Source from Lei et al., 2004)

Likewise, in this model, the contingency approach by emphasising the firm's specific motivations and competencies as vital contextual aspects influencing the firm's internationalisation processes were drawn upon. It was suggested that since the limitation of market knowledge and experience at the initial internationalisation stage, firms, especially SMEs, should begin at a level with low risk involvement (for example exporting to psychically nearby markets) and after that enlarge the commitment to connect themselves within levels containing higher risk involvement (for instance setting up local manufacturing units in a psychically distant market) when the knowledge about that market has accumulated via business practice (Lei et al., 2004).

However, regarding to the strategic planning process, Lei et al. (2004) noted that an SME might not begin their planned internationalisation development with market research followed by selecting market and lastly coming to choosing a market entry mode. On the other hand, due to the limitation of resource and short timeframe for decision making (regularly occur within SMEs); the progression of planning and investigating could be less efficient. Besides, according to Dalgic and Heijblom (1996), only using systematic planning does not guarantee that the firm can gain valuable market knowledge which is essential to minimise operational faults in an overseas marketplace. Additionally, the empirical learning approach overlooks the planning stage and does not examine the motivations of firms to expand their business into foreign markets. Hence, it is suggested that firms could leapfrog the level with low risk involvement and begin instantly from the middle level of risk involvement (e.g. by setting up their production at foreign market) or involve with higher risk level (e.g. by being a partner of a joint venture in a foreign market) as the completion of alternative progression in the execution stage (Lei et al., 2004).

3. Methodology

This dissertation is based on in-depth interviews with senior leaders of New Zealand organisations that engage in business with international partners and have experience doing business in the Vietnamese market.

The unit analysis of this research is the experiences of participants in both the costs and benefits of doing business in Vietnam. The unit of investigation for the study is the identification of a suitable business model for New Zealand companies operating in Vietnam. Interviews are conducted with three participant organisations. Interviewees are selected based on the nature of their business, origin, and experience in Vietnam. All of the selected participants hold senior leading positions within New Zealand based multinational organisations which established their business in Vietnam for at least seven years. They are an Asian regional manager, a Marketing director of international markets, and the CEO of New Zealand based multinational firms that have had rich experiences doing business in Vietnamese market.

With the intention of identifying the relevant participants to carry out interviews, case study selection is usually guided by the principle of purposive sampling (Glaser & Strauss, 1999). This method implies choosing cases for theoretical relevance and purpose rather than statistical motives. Because the purpose of this study focuses on Vietnam and New Zealand companies doing business there, organisations chosen for this study will be those engaging in international business, operating in Vietnam, and having a New Zealand origin.

3.1 Philosophical Approach

A qualitative research method will be used in this study. Interpretivism is the causal philosophical position for the proposed research. Qualitative methodologies concentrate on events that take place in natural settings and are designed to help researchers comprehend and discover the context of individuals, organisations, and society (Myers, 2009). A qualitative research method assists the researcher to recognise the potential opportunities and barriers that New Zealand companies may face when doing business in Vietnam and to determine business models that are may help to reduce failures and maximise benefits (Burra & Ahmad, 1991; Meyer et al., 2006).

3.2 Research Methodology

This research will follow the inductive thematic analysis method. The strategy of analysis will be based on case studies of New Zealand companies that engage in international business and are currently active in Vietnam. It will focus on answering

the two main research questions, including what challenges or difficulties New Zealand companies might have to face when doing business in Vietnam's market place are and which internationalisation model should be suggested to the firms to operate in order to overcome and manage business through those difficulties.

There are several explanations for choosing a case study method for this research, such as Eisenhardt's view (1989): "...the case study is a research strategy which focuses on understanding the dynamics present within single settings" (p. 534). Furthermore, according to Yin (2003, 2009), case study research would be relevant when the purpose is to define research topics generally, to examine multifaceted conditions, or is based on various sources of evidence. Case studies can comprise single or several cases in addition to multiple levels of analysis. Qualitative data will be gathered through semi-structured, face-to-face, in-depth interviews. The interviews, lasting for about 60 minutes, were conducted in person at participants' office in New Zealand. Both note-taking and voice-recording were conducted during the interviews process with participants' acknowledgement. The research method might be limited by the fact that a small number of New Zealand companies might be willing to share and reveal information; therefore, there are not many firms willing to join the study project. However, the researcher is confident that the data gathered from the three senior leaders in New Zealand multinational firms was high quality and note-worthy for the study project.

3.3 Methods of Data Collection

In-depth, semi-structured interviews were utilised to gather data. Semi-structured interviews were conducted during research in an effort to ensure a flexible interview procedure. The set of interview questions were designed to guide interviewees to provide information relevant to the proposed research questions. The arrangement of the interview questions can differ among interviews and further questions relating to important ideas which suddenly emerge may be asked by the researcher (Bryman & Bell, 2011). The interviews were a list of topics that would be debated, including the internationalisation process of the organisation, the systematic planning of the internationalisation steps, the firm's contingency perspective when internationalising, noteworthy learning experiences made during time engaging in various markets and the application of these experiences to Vietnam's marketplace.

Moreover, the data sources of the study included documents provided by the interviewees such as annual business reports, financial statements, organisational

documents, and so on. In addition, associated documents and journals from company web sites, advisory organisations such as New Zealand Trade and Enterprise (NZTE) and ASEAN New Zealand Combined Business Council (ANZCBC), and other media channels were gathered for studying organisational circumstances. Previous studies related to the proposed research question were also used to verify and validate findings. It is believed that employing multiple source of information will help to form a more elaborate chain of indication between data and results and a richer theoretical framework (Bryman & Bell, 2011).

3.4 Method of Data Analysis

The inductive thematic analysis approach is appropriate for this study because it is a practical and flexible research approach. According to Miles and Huberman (1994): *“Thematic analysis is an approach to dealing with data that involves the creation and application of codes”*. Unlike grounded theory, thematic analysis is not committed to any pre-existing theoretical framework. It can be utilised within diverse theoretical frameworks and can be used to carry out different things within them. Additionally, it can be a research method that works both to reveal reality and to unravel the surface of reality. In this analysis, an inductive approach is used to analyse the provided data set. Findings of other studies were also looked at in order to examine the distinction, logic and possibility of emerging findings. During the coding process, the categories created were linked to the data themselves and applied to the research question without trying to shape data into the preconceptions of other researchers. In other words, this form of thematic analysis is data-driven (Braun & Clarke, 2006).

4. Discussion

4.1 Introduction to the case companies

The case organisations are a New Zealand based well-known building materials manufacturer and distributor (named Company A), an innovative business software services company (named Company B), and a leading provider of educational services (named Company C). Company A has the longest history which was founded in 1959, whereas, Company B and Company C were founded in 1993 and 1994 respectively.

Regarding Company A, one of the businesses that form a New Zealand and Australian based building materials manufacturer and distributor, their services include design, developing and manufacturing quality aluminium extrusions for a wide range of products, such as windows and doors, commercial systems or high-quality aluminium extrusion for confidential supply. They have drawn on a wide range of worldwide expertise in products and design for the construction. Moreover, with the decision of investing in a world-class technology and design system which has evaluated in numerous patents and copyrights, it has let this company leverage their success in not only their New Zealand home base but also in many worldwide locations. They now have 90 franchised fabricators and commercial systems customers throughout New Zealand. Additionally, Company A have more than 40 franchised and licensed fabricators in many countries, such as Australia, the Pacific, Sri Lanka, Brunei, Philippines and Vietnam. Regarding Vietnam's market place, they have already operated in this market for over 18 years and have built up their brand awareness via many large construction projects and business seminars.

Likewise, Company B has been behind more than 300 winning software projects across various sectors, comprising banking, business services, community health services, finance, fitness, human resource, industrial services, insurance, legal services, manufacturing, and so on. They were formerly founded in 1993 in Auckland, New Zealand, as a company providing software services with a principal focus on assisting business organisations in a number of diverse sectors. Since 2002, together with the aim of expanding their core services, they started to implement projects outside New Zealand which mainly focused on countries within the Asia-Pacific area, including Australia, Malaysia, Singapore, and Vietnam. In 2004, after seven years of research and building networks in Asia, they decided to establish their first overseas subsidiary in Ho Chi Minh City, Vietnam due to the numerous potential and considered advantages offered by this market place.

Today Company B has turned into New Zealand's leading service provider to the software area, helping other companies to operate the ICT system, run software products effectively as well as manage the network of customers. Additionally, the company's strong service facilities and resources in Asia area, combined with their established business networks with key organisations in the region, have provided exclusive liberation and support capabilities for them to grow sustainably.

Finally, Company C is a leading independent provider of educational services offering a range of educational programs from pre-school or kindergarten level to university foundation studies level for students both within and outside New Zealand. They own and operate seven schools in New Zealand, two schools in Vietnam, and one in Indonesia with over 5,000 students. They employ more than 600 staff within three different nations. All of the schools in this organisation are co-educational as well as distributing common values and philosophies. They provide the high quality educational pathways leading to top well-known universities in New Zealand and Australia. Furthermore, having a strong established worldwide network of high-ranked educational organisations has allowed them to build up their reputation and maintain their development in many foreign countries, especially in Asia. In Vietnam, their first school was built for more than 2,000 local students in 2006 and opened in 2007.

Those companies have been chosen as the research objects since they are small and mid-sized enterprises in relation to international standards as well as their willingness to contribute and share information. In addition, all of these companies have perennial experiences (from 7 years to 18 years) and long term business plans in Vietnam. Considering the potential as well as increasing interest in Vietnam's economic and social development, two of the case companies (Company B and Company C) have established their business units there, while Company A has focused on doing their business in Vietnam via local fabricators and franchises.

4.2 Barriers to internationalisation faced by the case companies

While expanding business into foreign markets brings significant opportunities for development and value creation, it also involves numerous distinctive challenges (Lu & Beamish, 2001). In this section of the dissertation, the obstacles to internationalisation met by the case companies, as revealed through the study, in the Vietnamese market will be discussed. The scrutiny of the barriers to internationalisation process will be founded on the outline of challenges to internationalisation

recommended by Lu and Beamish (2001) with notions regarding liability of newness and foreignness.

4.2.1 The liability of newness

When the firm starts entering to a new market place, there are many differences between host and home markets with regards to political, economic, legal and cultural dimensions. These differences require an internationalising firm to alter their ways of operating business that were developed in a domestic circumstance (McDougall & Oviatt, 1996). Firstly, new knowledge and competences are necessary to be modified and improved in order to effectively go into the new markets. After that, building up business relationships with stakeholders, establishing the firm's legitimacy, as well as recruiting new employees and training staff new operations are the next challenges for the firm when doing business in a new marketplace (Lu & Beamish, 2001).

Regarding the issue of newness for a New Zealand firm doing business in the Vietnam market, all of case companies emphasised cultural aspects and building business relationships as main challenges. All of them emphasised that: "*Firstly, communication was quite difficult...people couldn't speak English...*" (Company A), and "*...the most important thing is finding a good local partner...good agent with good network...*" (Company C). They noted that: "*...relationship is the key of business...The reason we succeeded in Vietnam is I was making friend with customers, I was making friend with architects, a lot of people...make the customers like you...make they trust you...All of the misunderstood can be solve by relationship...*" (Company A). According to Thuy & Quang (2005) and Hoang (2008), differences in terms of interests and objectives as well as cultural and behavioural distinctions between Vietnamese and foreign managers are reasons that can create conflicts and distrusted relationship with local partners as well as damage the firm's reputation when operating in Vietnam. Therefore, understanding the cultural and behavioural differences between local and international perspectives is a challenge for New Zealand firms operating business in Vietnam. Furthermore, patience in negotiation and building trusted relationships is a norm in Vietnamese society (Hoang, 2008; Mathew, 2002; New Zealand Trade and Enterprise, 2010a, 2010b; Vecchi, 1992b). As an example, a study of Dang, Fredric and Truong (1998) about effective leadership in international joint ventures in Vietnam indicated that the terms '*dependable and trustworthy*' and '*be honest*' were ranked first and second respectively at the list of characteristics for effective leaders among Vietnamese managers. This highlighted that the Vietnamese considered '*trust*' as the key success aspect, especially in doing business with foreign firms. However, it takes

time and requires lots of effort to find the right partner and work on relationship-building as connections help get things done when entering the Vietnam market (Hoang, 2008; New Zealand Trade and Enterprise, 2010a).

Moreover, according to representatives of Company B and Company C, a lack of support from New Zealand government in operating new business overseas and incentives to export constrains New Zealand based international firms to obtain business opportunities not only in the Vietnamese market but also in international markets generally. Representatives from Company B and Company C stressed that: “...*not really supportive*” and “...*it’s very little support from the government...not very active in promoting New Zealand in Vietnam market...*”. However, more fortunate than these others, Company A did received helpful support from New Zealand Trade and Enterprises to take seminars in big cities in Vietnam, such as in Hanoi, Ho Chi Minh, and Da Nang, in order to introduce and promote their brand to local partners (Akooric & Enderwick, 1992; Dean et al., 2000; Sharon & Jim, 2006; Shaw & Darroch, 2004).

4.2.2 The liability of foreignness

Apart from having to attain new knowledge in terms of cultural aspects and relationship based business when entering Vietnam’s market, a New Zealand based multinational firm also faces the political risks as well as the operational risks originating from the foreignness of the new environment (Hoang, 2008; Meyer et al., 2006; New Zealand Trade and Enterprise, 2010a; NZ Business, 2005; The Economist, 2008).

Political risk

Although the Vietnamese government has attempted to create a more friendly exporting conditions and investment setting and more encouraging conditions for utilising the internal business environment, for many Western traders and investors Vietnam is still a complex place to do business (Van Dinh & Scheela, 2001). A shared view of a representative from Company A regarding political risk in Vietnam is about particularly ineffective legal system, bureaucracy and corruption, frequent regulation changes and the importance of state ownership in Vietnam are barriers which can challenge the selection of local business partners and make the evaluation of performance of the business in Vietnam more difficult. He claimed that: “*Vietnam is a bit different term...when I was there, they were just getting start to offer a better legal system...Everything is building up*”.

Operating business in Vietnam creates unique challenges, as the institutional change towards a market economy is as yet incomplete. State-owned enterprises still

play a primary role in the economy, particularly in strategic and capital-intensive industries, including telecoms, electronics, electricity as well as cement. Thus numerous overseas traders and investors discover that it is necessary to operate their business in partnership with Vietnamese state-owned enterprises. However, a question is posed that how private and profit-oriented business organisations (as New Zealand multinational firms) can manage a partnership with a state-owned enterprise in a nation that still names itself a “socialist republic” (Nguyen & Meyer, 2004).

Another challenge is that the law in Vietnam is the governing law and still developing. Vecchi (1992a) in his study about international joint ventures in Vietnam concluded that “*What is possible today may not have been possible a year ago – and vice versa*”. Consist with Vecchi’s viewpoint, a CEO at Company B claimed that creating a detailed agreements and ‘*clear bilingual contract*’ in negotiation with Vietnamese partners as well as long term business contracts is a challenge for New Zealand firm because the norm in this country is to outline a short agreement on general principles and leave the details to be solved at a future date or when changes in lawsuits take place.

Operational risk

It was stated by interviewees that due to poor infrastructure facilities and inequalities in income and wealth, Vietnam is still considered as a hard market. Big cities such as Hanoi, Da Nang, and Ho Chi Minh have vastly improved infrastructure facilities and high density of middle income citizens, but infrastructure development and income has been very unequal, especially between urban and rural areas. Regular electricity shortages, no-broadly accessible telecommunication system, and a considerable number of households in rural areas not having basic utilities such as televisions or internet access are typical examples for constraints that New Zealand firms have to face when operating business and developing their brand awareness in Vietnam’s marketplace (Hoang, 2008; International Tax Review, 2012; Mathew, 2002).

The lack of qualified local partners and employees when doing business in Vietnam is another challenge for New Zealand firms. Representative from Company C claimed that: “...*we don’t have a good full-time person to promote New Zealand in Vietnam...We haven’t found that person yet*”. Due to the lack of international commercial experience, modern technological capabilities, and practical managerial knowledge, not only New Zealand firms but also Vietnamese companies have to face many difficulties in cooperating, claimed by representatives of case companies. Thus sharing knowledge between the New Zealand firms and their local partners perhaps is

the most vital part when operating a business in Vietnam. It involves numerous complementary approaches that comprise the common knowledge required to manage business in Vietnam in line with the existing international operations of the New Zealand based firm (Hoang, 2008; Mathew, 2002; Nguyen & Meyer, 2004). Hence the need to transfer knowledge and train local partners in order to accomplish international business target successfully is considered as a significant challenge for New Zealand based firms when doing business in Vietnam.

Besides, representatives of Company B and C also noted that the smallness of New Zealand SMEs is a noticeable limitation when operating business in Vietnam which is discussed in a previous section. Indeed, due to financial and cost-related issues, limited foreign market knowledge and managerial expertise, limited access to network, and a lack of resources, New Zealand SMEs have missed many opportunities not only in exploiting the Vietnamese market particularly but also in international markets generally (Akooric & Enderwick, 1992; Dean et al., 2000; Sharon & Jim, 2006; Shaw & Darroch, 2004).

4.3 Analysis of the company's internationalisation process within the framework of the hybrid model

It is explained that the progression of internationalisation in terms of some logical sequence of firms' activities, regularly beginning with simple exporting activities and progressively continuing with growing experience and commitment to investment and/or strategic alliances (Douglas & Thomas, 2000). Following this explanation, the Uppsala model was the closest answer for the firms who want to go global, which was an internationalisation model relying on learning and knowledge (Malhotra & Hinings, 2010). As discussed earlier in the literature review section, this model is mainly based on the firm's progressive acquisition, integration, and gradual increase of knowledge and commitment to the foreign market (Amjad, 1997; Johanson & Vahlne, 1977).

However, the Uppsala model has several limitations which have been analysed in the works of Johanson and Vahlne (2003; 2006), Amjad (1997), Fletcher (2001), and Malhotra and Hinings (2010). The concept of psychic distance is likely decreasing due to globalisation, for example the extension of regional trade groupings and the developments in the international business environment, the increase in incidence of transfer pricing, marketing activities via the Internet, the development of transportation, and so on. Therefore, this model is inadequate to the firm's internationalisation process

(Fletcher, 2001). Besides, researchers including Reid (1981), Rosson (1987), and Turnbull (1987) claimed that this model was too deterministic (Amjad, 1997; Melin et al., 1992). They argued that different types of organisations pursued different processes of internationalisation, including choosing different entry modes or business models. The processes also rely on numerous factors, including foreign market opportunities, the firm's capabilities, and types of products (Amjad, 1997; Malhotra & Hinings, 2010). These issues in turn are requiring firms to implement a more dynamic, more flexible, and more complex approach which can provide an internationalisation model being able to adjust between the firm's activities and changing market circumstances (Fletcher, 2001).

The hybrid internationalisation model was investigated by combining the experimental learning approach and contingency approach with the systematic planning model (Lei et al., 2004). In this model a holistic view of the internationalisation process is provided, however, authors have no pretensions to use this model as a replacement for previous ones (Paunovic & Prebezac, 2010). In this section of the dissertation the case companies' internationalisation process will be analysed within the outline of the hybrid model created by Lei et al. (2004) (see Figure 2). It is proposed that in order to be internationally competitive and internationally cooperative, there are three key phases in the internationalisation process that the firm needs to go through, including basic phase (antecedents), planning phase, and execution phase (Lei et al., 2004).

4.3.1 The basic phase (Antecedents)

The hybrid internationalisation model emphasised the features of the firm's behaviour which starts from their motivations and competencies (Paunovic & Prebezac, 2010). Lei et al. (2004) stressed that it is critical for a firm to have strong motivations which trigger the following internationalisation development. Besides, it is necessary for the firm to develop their competencies over time. Strong and clear motivations as well as unique competencies can help the firms face the liability of newness, such as aspects regarding difficulties in different culture, brand or reputation awareness, and relationships in business, and so on (Lei et al., 2004).

Discussing the motivations, all of these three case companies came up with the same idea. The motivations for these three case companies to expand their business to Vietnam is the potential of this fast growing and developing market that can drive them to be '*market pioneer*' or '*world-class*' firms. Their aim is to be the pioneer in the new market, building global awareness about their brand, employing well qualified staff, and providing world-class services and products. However, the problem with the

motivations mentioned above is their ambiguity because they are not easy to evaluate if they were achieved. Besides, being the pioneer and the most competitive company internationally are expensive since the firms have always overcome many problems when operating in a new developing market such as Vietnam, including shortage of resources, unclear in policy and law suit, logistic and price issues, currency exchange, and so on.

On the other hand, it is important to note that in order to be globally successful, the firms need to develop their competitive advantages. Scully and Fawcett (1994) claimed that multinational firms in general and SMEs in particular ought to build up competitive advantages not only in the manufacturing process but also in end of the value chain activities (for example lowering their operating costs, increasing productivity and quality, and enhancing ability in reacting to the worldwide customers' demand) in order to compete globally. Therefore, Company B shared that they have emphasised the value of *'people'*. They stated that: *"...to us our people are our business"* (company's website). To be different to other business service firms, the Company B's staff are not only from a diverse group of nationalities but are also required to be well rounded with knowledge and expertise as well as strong communication skills, in various areas of business activities – all contributing to their variety of software services. An example of their achievements is the award for their unique business model which is designed specifically for Asian markets by their staff who worked closely and for a long time within Asian areas (Company B's website). Dissimilar to Company B, Company A and Company C focused on developing their facilities, such as world-class technology and design system, as well as a worldwide network of partners, such as the wide connection with famous universities. For Company A, their strategy is founded on the reality that by reason of the production expenses in New Zealand, the firm cannot compete in global markets by relying on lowest costs, but rather by differentiation in design and *'reasonable cost'*. Additionally, the firm can improve their competencies by carrying out sustainable manufacturing activities and thus to cut costs, lessen waste as well as increasing a brand awareness as being sustainable (Company A's document).

Besides, Company C emphasised the importance of a worldwide network of business partners as a key competence. They have relationships with many local agents who have a strong network with potential customers (local student's families). They also have connections with well-known universities and trustworthy educational organisations which can help them gain experiences and build up their *'good reputation'*

in Vietnam'. In consistency, Doole and Lowe (2008) noted that successful SMEs in international markets can solve the lack of resources, identify new market opportunities, and reduce the risk of entering unfamiliar markets by developing the ability to build and exploit their valuable network of business partners. An international marketing tactic that is grounded in a comprehensive consideration of the environment and the consumers in the target market needed to focus on. Therefore, the firm will develop their branding plan with the assistance of an external consultant in order to improve their understanding of the clients' demands and how to serve them. However, according to Company C, this strategy is not easy to implement for New Zealand's firm when doing business in overseas markets (such as Vietnam) due to time constraints, limited financial resources, transportation cost (distance between New Zealand and Vietnam issue for instance), and availability of qualified and trust-worthy consultant services in Vietnam's market. For international companies newly entering into a foreign market, gaining exact and detailed information regarding nature of the market they entered and customers' behaviour in that market is obviously difficult and requires a lot of effort. On the other hand, if the firm can overcome this challenge, it will become one of their strongest competitive advantages. It is agreed that building a strong worldwide network is one of co-operative solutions for overcoming the liability of newness (Doole & Lowe, 2008).

4.3.2 The planning phase

Regarding a strategic planning process founded on market research and the systematic approach to global markets, there are many scholars who claim that due to constraints of resources and finance, SMEs are unlikely to carry out this procedure and usually rely on spontaneous decisions (Necmi & Martin, 1998). However, Lei et al. argue that it is essential to plan and prepare before entering a new market. It can help the firm to overcome the liability of foreignness such as lacking of foreign market knowledge and access to resources, lacking of qualified partners or local staffs, and difficulties from '*developing conditions*' of a country such as Vietnam (undeveloped infrastructure facilities, big gap in incomes between rural and urban, and so on). Firms experienced a systematic sequential procedure of obtaining knowledge and planning, which was apparently activated by the firms' motivation and primary competencies. This planning procedure for SMEs includes three major steps, namely market research, market selection, and entry mode selection (Lei et al., 2004).

According to the respondents, market research is an important part of their planning process. Market investigation is implemented through consultants in regards to

all features including market demands and trends, behaviour of consumers in various countries, extent of competition, and so on. Besides, trade fairs, exhibitions, and business seminars are also another significant source for companies to seek information about niche markets (Company A's document).

Therefore, when selecting Vietnam as a potential market to exploit, all these three case companies determined that this country has many opportunities for them to develop, to promote their brand name, innovative services and products, and to cooperate with good local partners. They revealed that they have considered and studied previous research about Vietnam's market in order to make this selection and prepare for their long term business plan in this country. According to the CEO of Company B, they selected Vietnam as the next target market due to a suggestion from their business partners and staff who are Vietnamese. Although it is not an English speaking country and there are many differences in cultural background and society, Vietnam was selected as potential market for cases companies to expand their business due to its population, trend and demands for quality product and service with fast growth in the number of middle class consumers, hardworking and low pay rate of local staff, honest and friendly local partners, and so on (Company A's documents). Besides, the most important thing is they found a way to exploit those benefits and they can make it a long-term plan to achieve. Furthermore, successful entry into the markets in Asia-Pacific area, such as Australia, Philippines, and Malaysia motivated the case companies to expand their business to other Asia-Pacific market such as Vietnam.

Regarding selection of entry mode, the three case companies proposed two different strategies. For Company A, they suggested the strategy of finding an agent or fabricator who was operating in the local market or operating via local distributors. They emphasised that they could supply, train, and educate the local fabricator about the best solution for quality aluminium joinery system that they offered as well as assist local partners in construction projects with their expertise in this area. In this way, they not only had chances to set up a locally based fabricators of quality aluminium joinery system to compete with other foreign off shore based fabricators but also promote their brand name to architects, developers, and building contractors in Vietnam. Working with a local fabricator is the less risky selection to enter an overseas market, however, finding a good partner and maintaining the relationship with them are major challenges that the case company emphasised. The representative from Company A stressed that: *"I try to keep contact with all people I had business with...by both text message and e-mail"*. This way, he can maintain and develop his existing business network in Vietnam

which can facilitate him to study and transfer knowledge easier as well as obtain potential opportunities effectively.

Unlike Company A, Company B and Company C chose the alternative of setting up representative office and an international school in Vietnam. However, this entry mode selection requires lots of resources to implement including time, people, and finance. The senior leaders of these two case organisations had to spend a couple of years on staying in Vietnam to study and examine this market, and then decided to set up their representative units there. *“Our CEO came to Vietnam and he lived there for 7 years to set up the school”*, shared by representative from Company C. Furthermore, in order to overcome the issue of lacking qualified local staffs, Company C decided to use *“existing staff in Vietnam by mixing both local (Vietnamese) and foreign (staffs from New Zealand base) staffs”* and *“senior management team has visited Vietnam 3 times per year”*.

On the other hand, it is necessary to note that the planning phase in the hybrid internationalisation model in general works on an iterative sequence rather than a linear sequence. The feedback from the planning phase might come to the antecedents phase in order to help manager to adjust their motivation and competencies. Lei et al. (2004) pointed out that: *“The systematic planning school is too ‘rational’ to incorporate the need for experiential learning”*. However, they also emphasised: *“...experiential learning and systematic planning are two separate but semi-sequentially interrelated components in the internationalization process of firms. Neglect of either would be misleading theoretically and harmful in practice”* (Lei et al., 2004).

4.3.3 The execution phase

Overall, the empirical learning model emerges to observe the fact that the execution phase in hybrid internationalisation model itself might, in turn, boost the competences and efficiency of the planning phase (Lei et al., 2004).

The execution phase in the hybrid internationalisation model interlinks with elements of the business environment and the influence from these factors to the internationalisation process of the firm. Schoen (2009) stated that the uncertainties of the environment can impact on the firm’s internationalisation progress. For these case companies, due to changes in the business environment as well as availability of market opportunities in Vietnam, there was a gradual developing of the firms’ involvement from the simple entry mode and low risk level (partnership) to the more complex entry mode and higher risk level (setting up local production subsidiary).

Furthermore, all three case companies agreed that being part of a business network can assist them to learn and acquire advantage of their partners' knowledge, valued experiences, and relationships. The significance of strong business network and relationships when implementing routine business offshore, especially in Vietnam – a country which emphasises relationship based business, was highlighted by respondents. Consistent with this idea, Necmi and Martin (1998) pointed out that part of gaining multicultural capabilities which international managers from MNEs, especially SMEs were normally short of is cooperating with individuals from a variety of culture and societies. Hence, according to respondents, maintaining the relationships with existing business partners and tracking the possibility of new relationships are continuously a priority in an international managers' checklist when they conduct any internationalisation plans. All representatives from the three case companies emphasised that it is necessary to keep visiting the market regularly and to track the performance of local units closely in order to avoid failures from market environmental uncertainties and to cooperate with planned objects and activities effectively.

To summarise, excluding the theoretical dominance over other models, the hybrid internationalisation model brings many advantages to international business managers, including the suggestion of a how to guide to prepare for entry into an overseas market, investigating the firm's motivations and abilities, and identifying major stages in the internationalisation procedure, as well as distributing adequate finance and resources (especially in the case of SMEs). Besides, the hybrid model's flexibility not only facilitates international managers to make assessments when carrying out the internationalisation process in their companies but also provide them opportunities to research on their rivals' utilised tactics. Operating as an iterative progression, this hybrid model also allows each phase getting feedback from the following one. This arrangement can assist managers reviewing the entire process, identifying delicate situations, and avoiding severe mistakes when they have to face a range of alternatives and limitations of resources (Paunovic & Prebezac, 2010).

5. Conclusion

The purpose of this dissertation was to discover the particular barriers when doing business in Vietnam via New Zealand companies' experiences. It will provide deep understanding of both benefits and difficulties when doing business in Vietnam as well as a suggestion of a hybrid internationalisation model for the firms to operate in the Vietnam market effectively.

The fact is that each country market is surrounded by fences building up from economy, institutional, and cultural factors. Challenges coming along with internationalisation process of the firms can be internal barriers (functional, informal, and marketing related barriers) and external barriers (procedural, communicational, governmental, task, social, and environmental barriers) or the liability of foreignness (political risk and operational risk) and the liability of newness. These challenges are seen as higher significance if the target market is not similar to the domestic market as well as if new subsidiaries are set up. Noticeably, smallness is seen as a disadvantage in internationalisation process, since SMEs regularly are short of resources and capabilities that limit business opportunities.

Regarding challenges for New Zealand firms who are expanding their business overseas, it was revealed a late entry into world market, finance and cost-related issues, limited abroad market knowledge, limited access to network, limited managerial expertise, a lack of resources, and a lack of New Zealand government incentives to export as major challenges. Going for further detailed content, there are several issues that may discourage or restrain New Zealand companies doing business in Vietnam. These challenges include issues in terms of the political system and bureaucracy, legal system, infrastructure facilities, relationship based business view point, inequalities in income and wealth, and shortage of qualified employment.

With a quick view throughout a number of approaches to the internationalisation process of the firms, including stage, learning, contingency, and network, the holistic approach was highlighted with the hybrid internationalisation model as new pathway for New Zealand firms to not only doing business in Vietnam but also to internationalise in general. The hybrid internationalisation model was investigated by combining the experimental learning model and the systematic planning model which comprises three key phases in the internationalisation process of the firm, namely basic phase (antecedents), planning phase, and execution phase. This model can bring many advantages to the international managers, including suggestion of a guide how to prepare the entry in a overseas market, investigating the firm's motivation and abilities,

identifying major stages in the internationalisation procedure, as well as distributing inadequate financial and resources suspiciously (especially in the case of SMEs). Besides, in this strategic arrangement, it can assist managers reviewing the entire process, identifying delicate situations, and avoiding severe mistakes when they have to face a range of alternatives and limitations of resources.

6. Limitation and Implication for future research

As discussed earlier, the most considerable limitation of research founded on the lack of previous research on New Zealand companies doing business in Vietnam as well as the limited number of New Zealand organisations participating to this research project. Therefore, more research is required on the challenges that New Zealand firms in general and New Zealand SMEs in particular face when internationalise. This means that the firms which are willing to join the study need to be from diverse business areas. It would be able to provide a wide range of information regarding the internationalisation barriers as well as classify the constraint which might be related to specific industries. In addition, more research projects should be carried out on the Vietnamese market and how to do business effectively in this market. It would be more supportive if there was more attention among New Zealand organisations and studies conducted on this topic since Vietnam has become a potential destination for them to expand their business.

On the other hand, the lack of governmental support when operating business in offshore markets was a considerable constraint for SMEs in New Zealand. Thus, it is suggested that the New Zealand government should provide more encouragement and assistance to local enterprises in their internationalisation effort. Finally, it would be helpful if there would be more attention and studies on comparison with regards to different internationalisation models and entry modes utilised to enter the Vietnamese market in order to highlight the most profitable internationalisation model as well as appropriate entry mode for a New Zealand firms in general and for New Zealand SMEs in particular.

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